Insights
Defined Contribution

October 2019

Global Retirement Reality Report
US Snapshot

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Applying a US lens to the 2019 Global Retirement Reality Report (GR3), we have synthesized country-specific findings from the sponsors surveyed into five key insights. Here we will explore US employers' evolving perspectives on retirement.

Americans are living longer and working differently, circumstances that demand industries shift gears to keep pace. In order for institutions — from governments to health-care systems to corporations — to sync to individual needs, they must first understand them. In the realm of retirement, insight, particularly into a participant's full portfolio picture, is limited.

Plan sponsors' near-sightedness is largely due to the modern career experience, which can include multiple employers, experiences in and out of the gig economy, mid-career sabbaticals, retraining and reinvention. While the employer-sponsored defined contribution (DC) plan places the reins to retirement readiness in participants' hands, it does so without integrating savers' full financial picture — creating blind spots for employers and employees alike.

Though DC has become synonymous with retirement saving for Americans, the system does have shortfalls: Access isn't available from all employers and those employees with access are not equally engaged in or equipped to manage the retirement saving responsibility. For sponsors, not having a comprehensive view of participants' savings spectrum makes managing towards retirement readiness a difficult task. But the future may be clearer.

Here, guided by the insight of our 2019 Global Retirement Readiness Report (GR3), we will get a perspective on participant preparedness, plan design and future opportunities for enhancement from the vantage point of plan sponsors, and argue why more insigt will be better for all.

Key Findings

1 **Sponsors Don't See Participants' Full Retirement Picture** Sponsors expect participants to have low income replacement rates in retirement — and also to be able to retire on time and maintain their chosen lifestyle. These incongruent results suggest that sponsors don't believe they have participants' full financial picture.

2 **Sponsors Want to Do the Right Thing** Despite this incomplete understanding of participants' preparedness, employers are eager to support employees by choosing plans that deliver low costs, a thoughtful investment selection and features that are a combination of intuitive and automatic.

3 **Target Date Fund Popularity Continues** According to sponsors, for those participants who are new to the plan and not automatically enrolled, there is a 31% uptick to otherwise steady interest in target date funds.

4 **Sponsors Believe Simplicity Rules** Given the lead role the participant plays in navigating the retirement saving and spending experience, simplicity has become a defining dimension (a point emphasized by target date fund popularity). By keeping plans simple, participants are more likely to dive in and less likely to find themselves out of their depth.

5 **Education and Automation Are Essential** Sponsors are seeking more support when it comes to participant education and engagement. As people's financial lives become increasingly complex, the need for clear communication and automatic options increases — as does the opportunity for investment managers.

Survey Methodology

In order to better understand the plan sponsor perspective, we spent the first half of 2019 conducting interviews with 195 sponsors across five countries, chosen to represent a range of different retirement systems: Australia, Ireland, the Netherlands, the United Kingdom and the United States. The survey, led in conjunction with international data analytics firm YouGov, covered plan sponsors with fiduciary responsibility for 1.5 million participants in total.

Region	Number Surveyed
Australia	41
Ireland	30
Netherlands	37
United Kingdom	45
United States	42

In the US, our sample composition was:

- **Inclusive of a range of industries, with some concentration in the health-care/ pharmaceutical (19%) and financial services (17%) sectors;** other respondents spanned manufacturing, retail, professional services, IT, education, hospitality and logistics fields.
- **Skewed toward HR decision makers (62%)** versus financial officers, including CIOs and CEOs (29%) and other roles spanning from consultants to members of management (10%).
- **Focused within the 5,000- to 10,000-participant plan size (79%).**

US survey respondents brought a large- to mid-sized plan perspective, tilted toward the HR experience and "knowledge economy" sectors. Guided by responder insights, our US report focuses on five key findings specific to American public policy, our cultural bias toward optimism and the existing retirement structure.

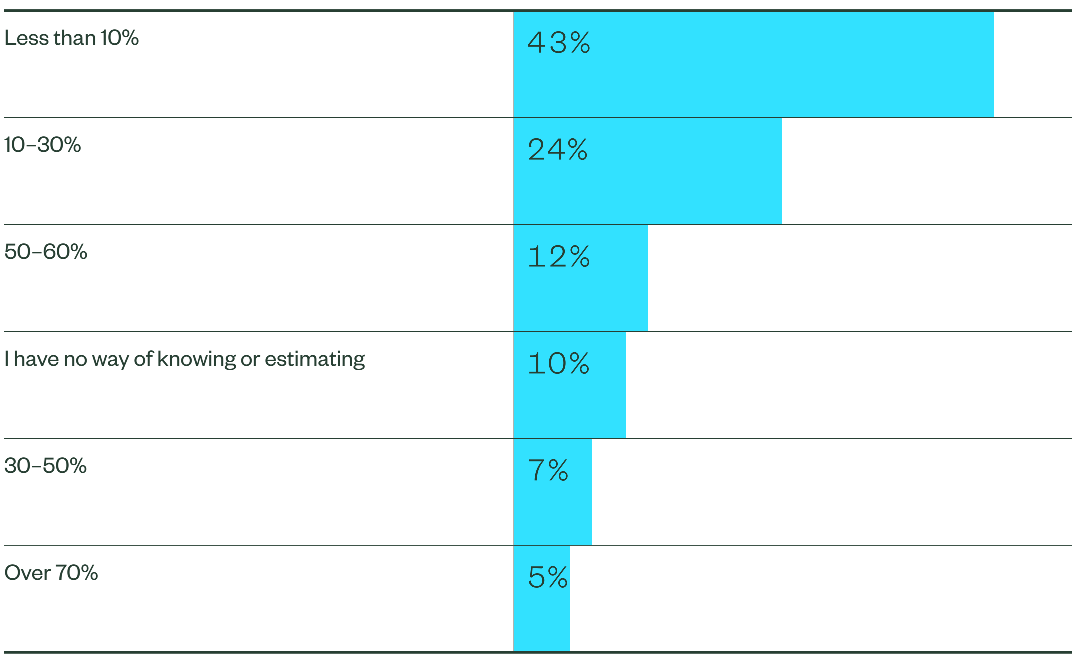
1

Sponsors Don't See Participants' Full Retirement Picture

Sponsors estimate that participants will have low replacement income in retirement — 43% anticipate that participants will have less than 10% of their current income available to them in retirement and 24% expect replacement ratios between 10% and 30%.

What do you expect the average replacement ratio (defined as income from DC plan/final salary) to be of members retiring from your plan within the next five years?

Figure 1
Sponsors Expect Low Income Replacement Rates for Pre-Retirees

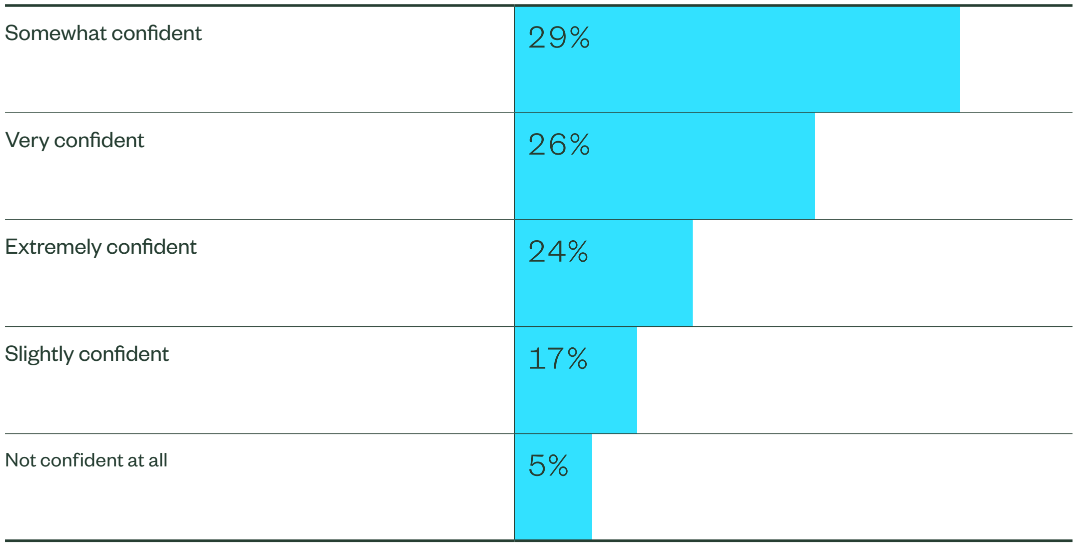


Source: State Street Global Retirement Reality Report 2019. n=42

However, despite this dismal forecast, sponsors are optimistic about their participants' ability to retire at retirement age (79% express confidence) and afford their current lifestyle once in retirement (more than 50% are confident in affordability outcomes for the majority of their participants).

How confident are you that the majority of your employees will be able to afford to retire at retirement age?

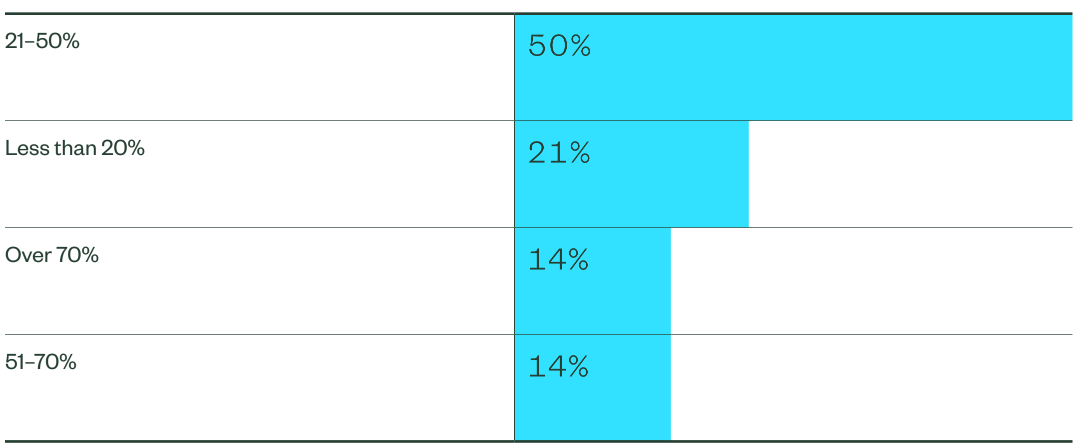
Figure 2a
Sponsors Are Optimistic that Employees' Will Retire On Time...



Source: State Street Global Retirement Reality Report 2019. n=45

What percentage of your employees do you expect to be able to afford their current lifestyle in retirement, assuming they retire by their normal retirement age?

Figure 2b
...And Be Able to Afford Their Lifestyle in Retirement



Source: State Street Global Retirement Reality Report 2019. n=45

Interestingly, our 2018 GR3 survey results, which focused on DC plan participants, found that approximately 70% of those currently working were at least somewhat confident of each of the following: being financially prepared for retirement (70%), retiring when they wanted to (71%) and affording a desired lifestyle (67%).[2]

How do sponsors reconcile their conflicting insights about participants' low replacement rates, on-time retirement and maintained lifestyle? Perhaps they consider their understanding of participants' financial picture to be incomplete. However, if employers are relying on the assumption that employees have access to sufficient retirement income outside of the workplace savings plan — from past employer plans to Social Security to real estate and investments to spousal income and benefits — then they may be missing an opportunity to help participants optimize wealth accumulation.

We asked sponsors what they envisioned the retirement landscape would look like in three to five years; many focused on the expansion of participants' limited financial picture:

An Integrated View

> “ I expect that financial information integration, portfolio calculators and income projections will be more common. Technology-supported solutions will need to catch up to the challenges of saving enough and retiring on time.

Evolving Benefits for Short-Term Employees

> “ We've been overly focused on long-term employment; but many of our younger employees move around. We need to have a portable, short-term investment plan.

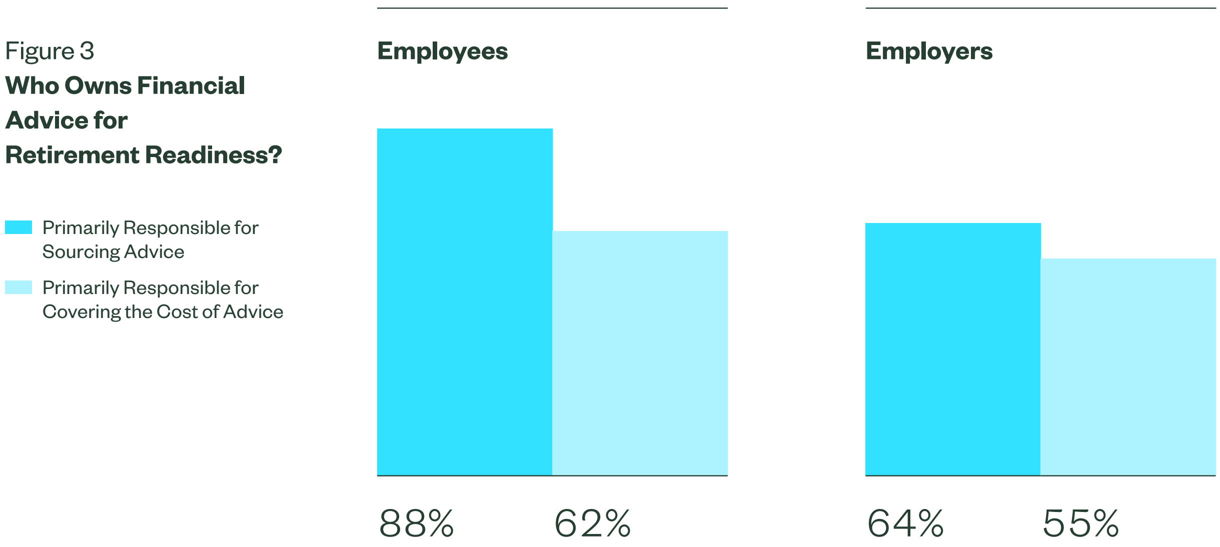
2

Sponsors Want to Do the Right Thing

Despite having an incomplete picture of participants' preparedness, employers are eager to support employees by choosing plans that deliver low costs to the saver, a thoughtful investment selection and features that are a combination of intuitive and automatic.

By setting savers up for success, sponsors are striving to support participants, who continue to be accountable for their savings outcomes and spending management as the era of defined benefit plans wanes. Facilitating access to financial advice specific to retirement becomes an important dimension of doing the right thing. However, sponsors are split on who sources and pays for advice, responses that may be driven by fiduciary concern and organizational constraints versus a lack of commitment.

Figure 3
Who Owns Financial Advice for Retirement Readiness?



Source: State Street Global Retirement Reality Report 2019. n=42.

Active legislation to enhance and evolve DC, including enabling plan access through a multiple employer plan (MEP) system, increasing auto-escalation limits and offering fiduciary safe harbor around retirement income options, will further sponsors' goals of altruism.

3

Target Date Fund Popularity Continues

New flows to the default, specifically target date funds (TDFs), continue to grow among new, younger participants. By 2021, these strategies are predicted to capture 85% of participant contributions, according to Cerulli Associates' 2016 US Defined Contribution Distribution report.

However, the core menu remains popular with pre-retirees for an array of reasons, including:

- The increased complexity of financial life for those nearest retirement and the complementary desire for customized solutions, and
- Initial plan participation pre-dating the 2006 Pension Protection Act, the event that caused TDFs to soar in popularity as one of three qualified default investment alternatives approved by the bill.

A combination of inertia (for those who didn't elect to invest in TDFs when they became available to plans), preference and lifestyle has diminished the pre-retiree population's participation in the default.

Figure 4
Demographic Distribution of DC Investment Strategies

	Age				
	20s	**30s**	**40s**	**50s**	**60s**
DC AUM in the Core Menu	45%	62%	72%	75%	76%
DC AUM in the Default	55%	38%	28%	25%	24%

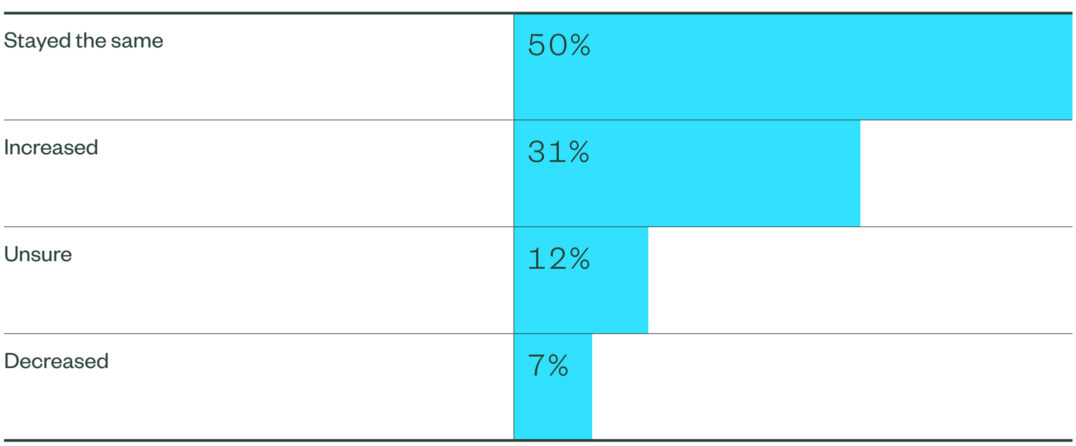
Source: Employee Benefit Research Institute.

Respondents help to reconcile the industry impression that TDFs dominate with the reality of asset distribution across the core menu. Forty-three percent believe that the majority of their participants are invested in the default. This leaves nearly 60% suggesting that a different AUM distribution, split with or shifted toward the core menu, is in place. But with time and in keeping with Cerulli's forecast, this distribution is likely to change

According to sponsors surveyed, for those participants who are new to the plan and not automatically enrolled, 31% saw an uptick to otherwise steady interest in target date funds. It's reasonable to infer that the next generation is seeking the sort of "point and click" simplicity in retirement saving that can be found in other facets of life. Sponsors would agree; 69% believe the increase was due to TDFs' attractive simplicity, and 54% believe that younger savers joining the plans are driving the change.

Over the past 12 months, how has the number of participants (excluding those who are defaulted) actively choosing target date funds changed?

Figure 5
Target Date Funds Show Steady Popularity with Participants



Source: State Street Global Retirement Reality Report 2019. n=42

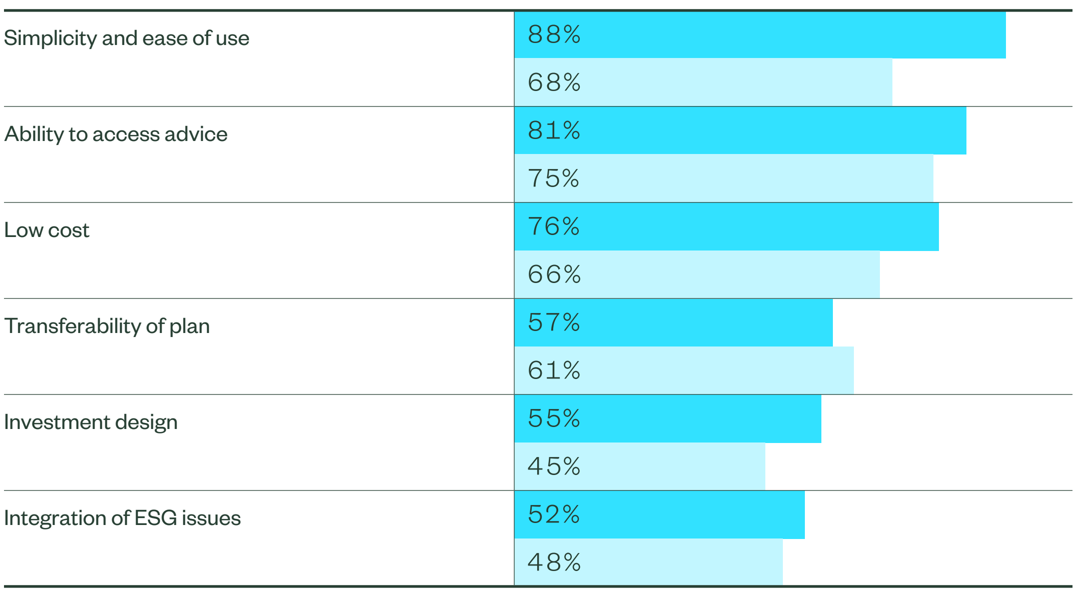
4

Sponsors Believe Simplicity Rules

In our 2018 GR3 study, 88% of respondents described themselves as being the most responsible for ensuring that they have adequate income in retirement. Given the lead role the participant plays in navigating the retirement saving and spending experience, simplicity has become a defining dimension particularly as compared to responders from the other countries surveyed. By keeping it simple, participants are more likely to dive in and less likely to find themselves out of their depth. In fact, sponsors ranked "simplicity and ease of use" as the plan dimension that participants most valued — followed fast by the "ability to access advice."

Rank how you think employees value the following attributes of a retirement plan.

Figure 6
US Sponsors Most Value Plan Simplicity and Access to Advice



Source: State Street Global Retirement Reality Report 2019. n=42.

Important US   Important Avg ex-US

While respondents ranked investment design as a lesser priority to participants, they closely evaluate investment range as part of provider selection, suggesting that sponsors see their responsibility as offering a strong investment menu, even if participants are less attuned to its value. This logic may also apply to the placement of low cost on the priority list, given that sponsors are generally confident that they've negotiated a cost-effective plan, making the issue of cost important, but invisible to the participant experience.

Finally, when it comes to environmental, social and governance (ESG) investing, sponsors expressed middling interest; 55% cited ESG as an important plan investment consideration, compared to 71% in the UK and the 69% average across all five countries surveyed. While currently lagging the European markets in adoption, ESG in the US continues to be an area to watch as interest and traction slowly gain.

5

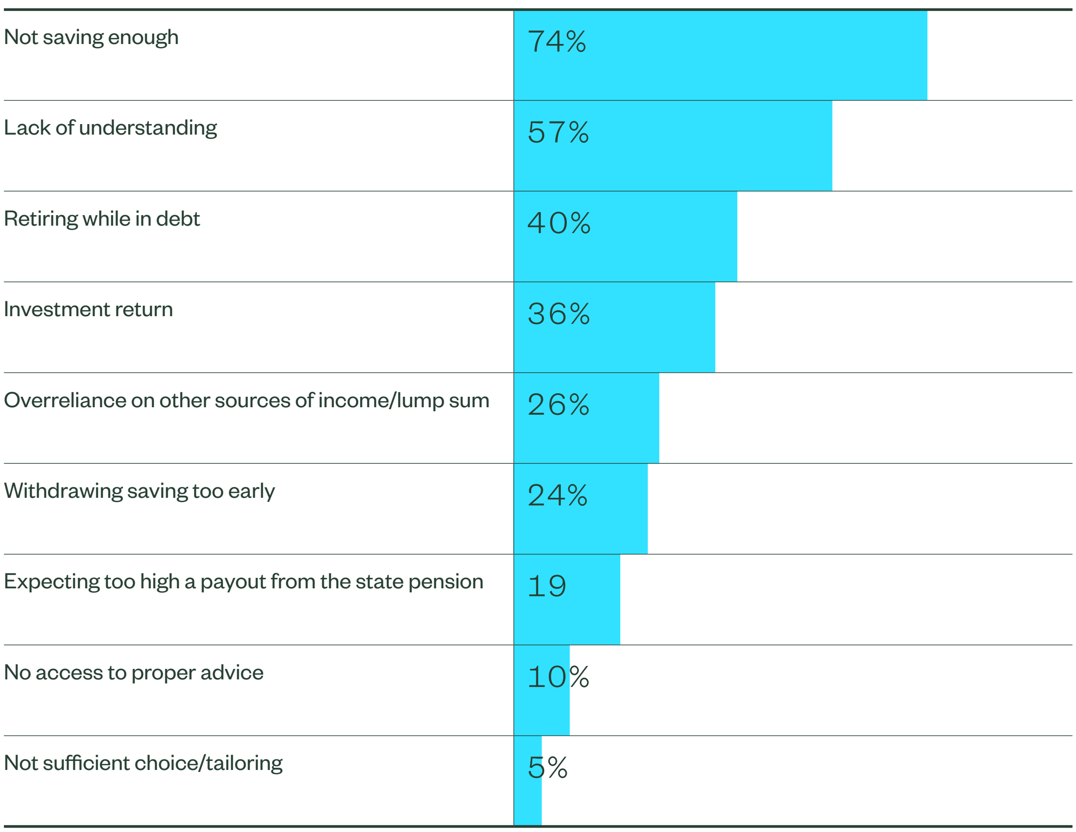
Education and Automation Are Essential

Employers and employees may find themselves balancing between the stumbles and strides of the current DC landscape: stymied by an incomplete financial view but buoyed by the ease of the default. For the issues that fall in between, education and automation may be the answers.

Respondents were asked to identify the top three challenges they see to participants being retirement ready. Unsurprisingly, not saving enough (74%), lack of understanding (57%) and debt (40%) were the leading drivers to savings shortfall.

What are the top three challenges impeding employees' retirement readiness?

Figure 7
Sponsors Site Low Savings and Lack of Understanding as Biggest Retirement Challenges



Source: State Street Global Retirement Reality Report 2019. n=42

Savings sufficiency can be addressed through auto-enrollment, auto-escalation and participant education and engagement campaigns run by employers. In fact, 60% of respondents said they altered their messaging to participants in the past 12 months in order to focus on short-term goals, with a focus on saving.

Debt presents a uniquely American set of issues. Higher out-of-pocket health-care costs can quickly devour savings, as echoed by a 2018 Consumer Bankruptcy Project study focusing on people 65 to 74 years of age.[3] Of the participants surveyed for the 2018 GR3, 94% of those who expect to need more income in the later years of retirement attributed the need to health-care costs. At the other end of the life stage spectrum is student debt. Seniors ages 60 to 69 owe $85.4 billion in student debt, or 6% of the $1.52 trillion national total.[4] Either accrued through their own continued education or as guarantors on loans for their children or grandchildren, student debt repayment is quickly eroding retirees' resources and straining savings.

The stress of trying to cover deep debt in retirement creates the same financial unease that today's employees can face — and this unabated anxiety is anything but healthy. A Global Benefits Attitudes survey in 2017 by Willis Towers Watson revealed a spike in money worries for US employees: 48% of US employees worry about their current financial state and 59% worry about their future financial state.[5] In the workplace, this pressure manifests in lagging engagement and productivity and increasing absenteeism. In retirement, a time when people have fewer income options to pursue, the stress can be corrosive. But sponsors can help. By setting a strong foundation for financial wellness, employers can support participants in getting grounded long before retirement, with financial management tools and techniques that could serve them for a lifetime.

We asked sponsors what the glaring gaps were in investment managers' service offerings, and interestingly, many cited the lack of participant services. Given the acknowledged need for and value of employee engagement, sponsors would be benefitted by aligning with managers equally invested in supporting participants' success.

Mind the Gap

> " The biggest miss is around employee engagement. The lack of participant education and awareness of retirement savings, and how critical it is, is a problem.

The Future Is Financial Wellness

> " In the near-future [three to five years] people will be educated on their options and invest smartly for better outcomes. Assuming a strong economy and larger participant base, investment options will improve while costs will go down — and savvy participants can benefit.

Seeing Together

By gaining the sponsor perspective in this year's GR3 research, we were interested to see where and how employer and employee attitudes aligned and differed. Both can agree that the participant owns the responsibility of retirement readiness. However, sponsors have less insight into, and therefore less confidence of, employees' actual saving sufficiency. That's important because while participants own their journey, sponsors believe they are responsible for supporting it. Therefore, brokering insight into a full financial picture is a meaningful goal for both employer and employee and will lead to greater financial wellness (and its cascading bottom-line benefits).

The future of retirement is upon us, from regulatory to policy changes — some implying increased access and others state autonomy — to evolving retirement income solutions. To navigate this new landscape, particularly the technical terrain, employers and employees would both benefit from an expert guide. Building insight and acumen with the help of an investment manager or financial advisor will help participants and sponsors to better engage with each other, seeing the future more dimensionally, differently, together.

Endnotes

1 Sixteen survey-takers responded to this question, eight of whom are represented by this statistic. The remaining 26 people in the sample did not know their plan size, suggesting a lesser involvement with plan oversight.

2 State Street Global Retirement Realty Report 2018.

3 The New York Times, "'Too Little, Too Late:' Bankruptcy Booms Among Older Americans," August 5, 2018.

4 Forbes, "The Growing Trend of Retiree Student Loan Debt," May 22, 2019.

5 Forbes, "Money Worries Creating Workplace Stress," May 15, 2018.

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